D. H. Baldwin Company · Annual Report 1971

Financial Highlights

D. H. Baldwin Company and Subsidiaries

(in thousands of dollars except per share amounts)	1971	1970	% of Increase
Total sales and revenues	**$132,327**	$119,557	10.7
Total assets	**692,582**	616,109	12.4
Net sales	**52,160**	48,650	7.2
Net income	**7,047**	5,024**	40.3
Per common share*	**2.50**	1.68**	48.8
Cash dividends paid on common stock	**1,412**	1,404	.6
Per common share*	**.58**	.58	—

*Adjusted for stock dividend and split.

**Including net extraordinary credit in 1970 of $79 (equal to $.03 per share), net of tax.

Directors

Gordon Adamson
Vice President
Baldwin Piano & Organ Company

Max G. Brooks
Chairman of the Board
The Central Bank and Trust Company
Denver, Colorado

Fred Gretsch, Jr.
Chairman of the Board
The Lincoln Savings Bank
Brooklyn, New York

William M. Hickey
President & Director
The United Corporation
New York, New York

John F. Jordan
Vice President

Lawrence H. Kyte
Partner, Law Firm of
Kyte, Conlan, Wulsin & Vogeler
Cincinnati, Ohio

William A. Mitchell
Retired — Former Chairman of the Board
The Central Trust Company
Cincinnati, Ohio

James M. E. Mixter
Vice President

A. J. Schoenberger
Retired — Former Senior Vice President

Morley P. Thompson
President

Eugene Wulsin
President
The Baldwin Piano Company
(Canada) Limited

Lucien Wulsin
Chairman of the Board

Robert E. Fanning — Retired
Director Emeritus

Philip Wyman — Retired
Director Emeritus

Officers

Lucien Wulsin
Chairman of the Board

Morley P. Thompson
President

John F. Jordan
Vice President

James M. E. Mixter
Vice President

Eugene Wulsin
Vice President

R. S. Harrison
Vice President & Treasurer

R. F. Coghill
Secretary

Timothy P. Hartman
Controller

L. H. Ellis
Assistant Secretary

James E. Schwab
Assistant Treasurer

Donald E. Waggoner
Assistant Secretary

Baldwin . . . in services and products . . . daily touches many lives in many ways. Throughout the pattern of all these activities runs one constant thread . . . the thread of consumer benefits. Each Baldwin service, each Baldwin product contributes to a better life not only today for this young girl, but throughout her lifetime.

Letter to Shareholders

1971 Growth: Sales and revenues increased 11%. Net income increased 40%.

The growth of Baldwin continued in 1971. During this year, consolidated net income after taxes rose 40% to $7,047,000 from $5,024,000 in 1970. The gross sales and revenues also increased from $119,557,000 in 1970 to $132,327,000 in 1971, an 11% growth. Earnings per common share grew from $1.68 to $2.50, a 49% increase. The principal source of the growth continues in the area of financial services. 98% of Baldwin's profitability stems from this area. The detail of these 1971 results as compared to 1970 are found in the Statement of Consolidated Income of D. H. Baldwin Company and its subsidiaries.

The significant results of 1971 have been achieved through long and often tedious hours, tough decisions and above all, a closer, more binding cooperation among key employees at all levels. Much remains still to do, but the shareholders should know of the distinguished performance of many employees far beyond the ordinary press of business. Good financial results will follow.

Yearly average corporate growth in earnings—31%

The sustained growth in net profit and sales and revenues of Baldwin began in 1968. The year 1967 was the last year in which the sales and revenues of the Company arose solely from manufacturing, financing, and sales of our musical instruments and electronic components.

Beginning in 1968, the Company undertook a policy of growth in the area of financial services. The knowledge and ability that it had acquired over the years of financing the sale of consumer products enabled Baldwin to expand rapidly and profitably in this area. It began with the acquisition of Central Bank and Trust in Denver, Colorado. The specific financial details of each year's growth will be found on pages 8 through 11 of this report. The annual corporate growth in consolidated net profit over the past 5 years has averaged 31%. In sales and revenues also the annual growth has averaged 22% over the same period.

This sustained five year growth pattern of 31% places the Company among the leaders in the country; however, not only has the Company grown, but it has achieved this growth without any major dilution of shareholder participation in the Company. During this period, book value per share, adjusted for stock split and dividend has increased from $10.59 on December 31, 1967 to $15.89 on December 31, 1971.

Baldwin Growth in Financial Services

The growth of the Company in the area of financial services is continuing. During the past year, the Central Bank and Trust, Empire Savings & Loan, and the financing of sales of musical instruments and our investment in National Farmers Union Service companies all were profitable parts of the Baldwin financial services package. The bank, savings & loan, and the insurance companies all showed improved earnings over 1970.

As a result of a purchase and sale through a public offering in December, 1971, Baldwin has in 1972 an investment in Anchor Savings Association of Kansas City, Kansas. Baldwin owns 34% of the equity represented by non-voting, guarantee stock.

Other Activities

The other two sections of our business, music and electronics, have not contributed significantly to our sales and revenues increases. Both of these sections have been subject to limited markets and profit margin squeeze. We know we can break out of these limitations. In the past years, in electronics, we have launched several major efforts to bring new and improved products to the market. In music, we have developed new music learning systems which bring music learning within the reach and competence of all ages.

In the fourth quarter of 1971, piano and organ sales improved substantially. We ended the year in music profitably, with our lowest inventory in many years. We enter 1972 with excellent prospects for increased sales, production and profits in music. In electronics, also, our prospects are good for increases in sales and elimination of our losses of 1971.

In May, 1971, the Directors voted to split the stock so that shareholders on June 21, 1971 received one share for each share held. This doubled the number of shares held by shareholders and makes available increased shares for trading in the public market. In December, 1971, the Directors voted a 4% stock dividend payable January 31, 1972 to holders of record on January 14, 1972. This stock dividend is within the guidelines established by the National Administration.

Following the requirements of the One Bank Holding Company Act, Baldwin filed with the Federal Reserve Board the requisite report to register as a one bank holding company. Review of this report is mandatory by December 31, 1972.

This year the Company has adopted a new manner of reporting its financial results to the shareholders. This is set forth in Note One of Notes to Consolidated Financial Statements. This format is designed so that a shareholder can see easily the total Consolidated Assets and Liabilities of D. H. Baldwin and all of its subsidiaries and also the Consolidated Income statements of the total corporate body, as well as its major divisions: financial services, music, and electronics.

1972 should see a further increase and growth of Baldwin.

Respectfully,

Lucien Wulsin

Chairman
March 13,1972

Financial Services

We have elected to make Financial Services our principal business and our primary area of expansion. This enables us to maintain our consumer orientation which began 110 years ago when Baldwin got its start as a chain of retail music stores.

Major Area of Earnings Growth
Financial Services is not a new area. In the late 1800's we pioneered the installment sales contract with the Singer Company. In 1936 *Fortune* described Baldwin as the "banker of the piano business." By the 1960's, 65% of the company's assets were finance assets in the area we now call Financial Services. In the last five years, the area has been largely responsible for the 31% annual increase in earnings per share. Last year, 98% of the company's earnings were generated by Financial Services.

Financial Services offers maximum flexibility. Since the assets are largely self-liquidating, Baldwin has a continual source of cash which it can allocate to meet consumer needs. We can follow the consumer, for instance, into mobile homes or home improvements. We are particularly fortunate because Central Bank and Empire Savings know the importance of deposit growth and, thus, provide additional cash flow through prudent liability management.

Central Bank is primarily a retail bank catering to consumers who need mortgage and installment loans. It is the 27th largest bank in the United States in real estate lending and the largest installment lender in the 10th Federal Reserve District. Installment lending is an area of high average yield on loans, stable interest rates and a consistent cash flow.

Central Bank is well managed. It has grown from 18th to 4th in size in Colorado in recent years, and last year added $36,000,000 to total assets. Central will continue to grow through such activities as credit cards, which is profitable for them, leasing and mobile home lending.

Empire Savings has benefited from the rapid change in the scope of the savings and loan industry. Fed by a 25% rate of deposit growth in 1971, Empire moved from 145th to 122nd in national rank and is now a $252,000,000 institution. Last year, Empire expanded into the field of multi-family construction lending primarily through its wholly owned service corporation. This has allowed Empire to enjoy higher rates of return without jeopardizing its outstanding record for safety in lending.

Investment in Insurance
The profit opportunities in Financial Services can take many forms. While we have long enjoyed casualty and life insurance profits on our installment lending, we expanded that profit making opportunity with our investments in 1970 in the National Farmers Union Insurance Companies. NFU's casualty and life companies serve rural Americans in twenty mid-American states, and their sales representatives aim to provide a complete financial service, again primarily to the individual family unit. In 1971 NFU succeeded in increasing its life insurance sales 50% under its growth-plus-profit expansion program. This has been accomplished through sales to individuals, not through the big group policies that may add volume but often don't add proportionately to profits. NFU casualty companies can boast of a 1971 underwriting profit. Black ink in underwriting coupled with investment income makes an excellent return on an investment in a casualty company.

All Activities Consumer Oriented
Baldwin has other financial services and investments such as Anchor Savings Association, but whether it is the installment contract on the organ, home improvement lending, or financing of a mobile home, the activities are consumer oriented.

Most Baldwin non-banking activities are protected by the "grandfather" section in the 1970 amendments to the Bank Holding Company Act. We believe that any investments we have made after the grandfather date are either "closely related to banking" or are not acquisitions under the terms of the act. Regulations and laws are always subject to change, and should any disposition ever be called for, we would take full advantage of the ten year divestiture period and then could, under legislation recently proposed by the administration, pass the activity tax free through to our shareholders.

She learns the importance of thrift. Her first savings account is just the beginning of the many Baldwin financial services that she may find ready to help when she needs them during her life.

Manufacturing and Merchandising

Baldwin sales and manufacturing activities cover a wide range of products. In the musical instrument field, Baldwin pianos and organs continue as the backbone of our business, supplemented by other musical instruments marketed by the Gretsch division and music lab software produced by Canyon Press. In the area of electronics, Baldwin designs, builds, and sells electronic devices and components with diversified scientific and industrial applications.

Improved Piano and Organ Picture

1971 produced an improvement in our piano and organ business, both as to sales and profits. The improvement was particularly noticeable in the latter part of the year. December sales volume, for example, was approximately 24% over December, 1970.

Learning Labs Key to Market Expansion

During the year we made major investments in our Company-owned Retail Stores to expand Electropiano and Organ Teaching Laboratories and to attract students. It is our firm conviction that group teaching offers the soundest way for our dealers and stores to broaden the sale of our products, to expand the keyboard market, and to extend Baldwin's penetration of it. This involves innovative teaching concepts, Baldwin-developed-and-tested software and hardware, and learning-oriented rental programs. We expect that our investment in teaching facilities during 1971, paralleled in many cases by our dealers in their stores, will begin to produce the desired results during 1972.

Expenses Controlled

Another major objective during the past year was the reduction of expenses throughout piano and organ operations. While the cost of purchased materials rose appreciably during the year, some of these increases were offset by personnel reductions and rigid control of expenses. Inventories, too, required further adjustments downward. Substantial reductions were accomplished, though not without creating some temporary hardships and shortages among our dealers and stores.

Success of FantomFingers

The introduction of Baldwin's exclusive new organ feature, "FantomFingers," was a great success with beginner and professional alike and helped to spark the increase in our organ sales. With FantomFingers, anyone can play a variety of virtuoso effects, practically without lifting a finger. While the player holds one chord, for example, FantomFingers plays a professional sounding arpeggio up and down the keyboard. In fact, on certain Baldwin organs, FantomFingers actually plays notes that are not on the keyboard.

Expanded Production Facilities

During 1971 we further developed our Baldwin Grand production facilities in Conway, Arkansas, and, by the end of the year, this plant was beginning to meet its schedules. Our action assembly operation in Juarez, Mexico, was expanded, and we increased assembly both of piano actions and cables for our organs, as well as additional production items for our subsidiary company, Quantrol Electronics, Inc., and for our Gretsch division.

In Greenwood, Mississippi, our case plant has undertaken the production of all piano and organ cabinetry. We are no longer dependent on outside suppliers for any of our cases. At the same time, Greenwood, during 1971, added piano bench production to its activities so that our dealers and stores can now receive matching benches with pianos, as well as organs.

Generally, during the year, both the piano and organ markets in the United States expanded, though this expansion has not kept pace with most major economic indicators. While imports increased, so did domestic production.

Emphasis on Export Sales

During 1971, we placed special emphasis on increasing sales in our foreign operations and are working toward making these operations profitable. Considerable progress was made in Canada and in the United Kingdom. A special piano was designed and produced for export to European countries and was successfully marketed in limited quantities.

She improves her skills at a Baldwin piano, building a base for a lifetime hobby . . . in a home where music is a part of a well-rounded education.

The Keyboard Market

An analysis of Baldwin's position in the very competitive piano and organ markets points up certain areas where Baldwin is particularly strong. For instance, over 40% of all domestically made studio upright pianos are made by Baldwin. Baldwin has a major share of the two-manual organ market in the $3,000 to $4,000 price range.

In our research and development efforts during 1971, we put special emphasis on design of new pianos and organs to strengthen our sales in those areas where we have been weak. These new products and the merchandising programs for them are being presented to our dealer organization in a series of coast-to-coast sales meetings in February and March. We believe that the successful marketing of these new instruments during 1972 will have a dramatic effect on Baldwin's keyboard sales and earnings.

Other Musical Instruments

Our Musical Instrument Division, Gretsch, continued to market guitars, banjos, drums, band instruments, and other miscellaneous items. This business has not been profitable, and, in 1971, major steps were taken to correct this situation. Production facilities in Brooklyn were closed; warehousing facilities were combined, and personnel was reduced and shifted in order to reduce costs and to develop greater efficiency. At the same time, the sales organization was strengthened and refined and sales support efforts increased. During the final months of 1971, increased sales were achieved, together with modest monthly earnings. We hope to continue this improvement through 1972 with manufacturing efforts concentrated in our plant in Booneville, Arkansas, and with further consolidation of our warehouse facilities.

We believe that group teaching also offers new opportunities for market penetration with the instruments marketed by this Division. New Baldwin developments in this field will be introduced during 1972.

Baldwin Electronics, Inc.

In 1971, internal development was started in several new product areas: digital readout systems, encoded motors, custom hybrid circuits, smoke monitors, active infrared fuzing, and solid state light emitters and silicon sensors. These new activities have involved investment in capital equipment and inventories, expenditures for engineering, and for sales, promotion, and production start up. Electron Emission Systems and Quantrol Electronics start-up costs, charged off against operations, offset what would otherwise have been a profitable year overall for BEI. As new product lines and marketing structures develop, profits should advance sharply. BEI is getting a large share of the limited optical encoder market, is accepted as a leading company in the field, and during 1971 delivered the most sophisticated encoder systems ever attempted for a NASA space application (weather satellite). Referrals to other NASA programs have followed. The market for the Baldwin Hawkeye Security System is large and the need is growing. This system detects and reports alarm conditions such as fire, intrusion, vandalism, and other phenomena by radio transmission, providing automatic protection for schools, businesses, and industrial establishments. Every city of 100,000 population or larger is a potential location for one or more systems. The Baldwin Hawkeye Security System has been installed in four leading U.S. cities. Interested prospects have been visiting these locations—at their own expense—an indication of current public interest.

She enjoys learning the elements of music in a Baldwin Electropiano Lab group . . . She's an interested observer in a Baldwin Organ Lab class organized especially for parents.

Five Year Comparative Statement

D. H. Baldwin Company and Subsidiaries

(in thousands of dollars except per share amounts)	1971	1970	1969	1968	1967
Total Sales and Revenues	**$132,327**	$119,557	$ 90,258	$ 86,509	$61,891
Total Assets	**692,582**	616,109	549,408	474,287	67,157
Net Sales	**52,160**	48,650	56,142	61,442	58,734
Net Income	**7,047**	5,024**	4,494	3,742	2,210
Per Common Share*	**2.50**	1.68**	1.86	1.57	.94
Cash Dividends Paid on Common Stock	**1,412**	1,404	1,396	1,378	1,356
Per Common Share*	**.58**	.58	.58	.58	.58
Annual Earnings Reinvested in the Business	**4,702**	2,694	3,097	2,346	823
Stockholders' Equity	**53,283**	48,479	45,706	28,048	25,085
Book Value Per Common Share*	**15.89**	13.96	12.90	11.62	10.59

*Adjusted for stock dividend and split.

**Including net extraordinary credit in 1970 of $79 (equal to $.03 per share), net of tax.

Financial Review

Total company earnings reached $7,047,000 for the first time in 1971. This represents a 40% increase over the $5,024,000 recorded in 1970. This is Baldwin's fourth consecutive record year. The growth in earnings per share over the last five years at compound annual rate has been 31%. This growth rate has been obtained during a period of a general decline in business and in the music business in particular.

Debt and Inventories Reduced

During the past two years the company reduced its debt in its wholly owned subsidiary Baldwin-Central from $22,000,000 to $16,650,000. This is in addition to the $9,500,000 reduction in debt in D. H. Baldwin Company during the same period. Baldwin has also continued to reduce its inventories adding $700,000 to the $1,600,000 decrease that occurred in 1970.

Sales and Revenues

Sales and revenues increased from $119,000,000 to $132,000,000, an increase of 11%, of which $10,000,000 was from increased revenues and financial services and approximately $3,000,000 from increased sales of musical instruments.

Continuous Dividends

Baldwin maintained its long record of continuous dividend payments dating back to 1935, and increased the return to shareholders this year by declaring a 4% stock dividend which was payable to stockholders of record on January 14, 1972.

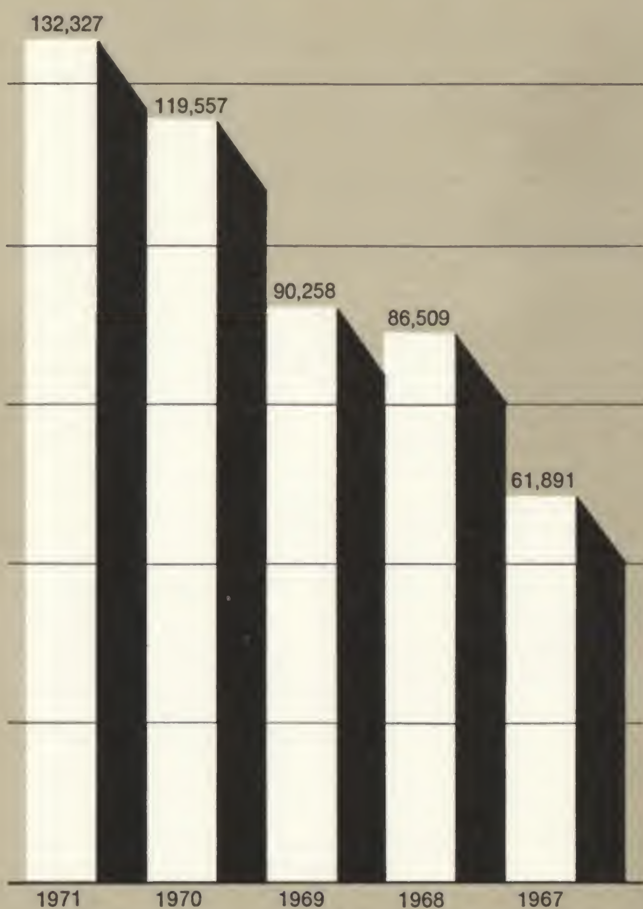
Sales of Securities

The company contributed approximately $3,000,000 of corporate bonds obtained from the merger of Bowfund as additional capital to Central Bank in accordance with our earlier commitments to add to the bank's capital. During the time the securities were held by the company, they enjoyed an appreciation of over $400,000, a gain which would not be reflected in company earnings until such time as they are disposed of by Central Bank. Central Bank has repaid the capital note due Baldwin-Central.

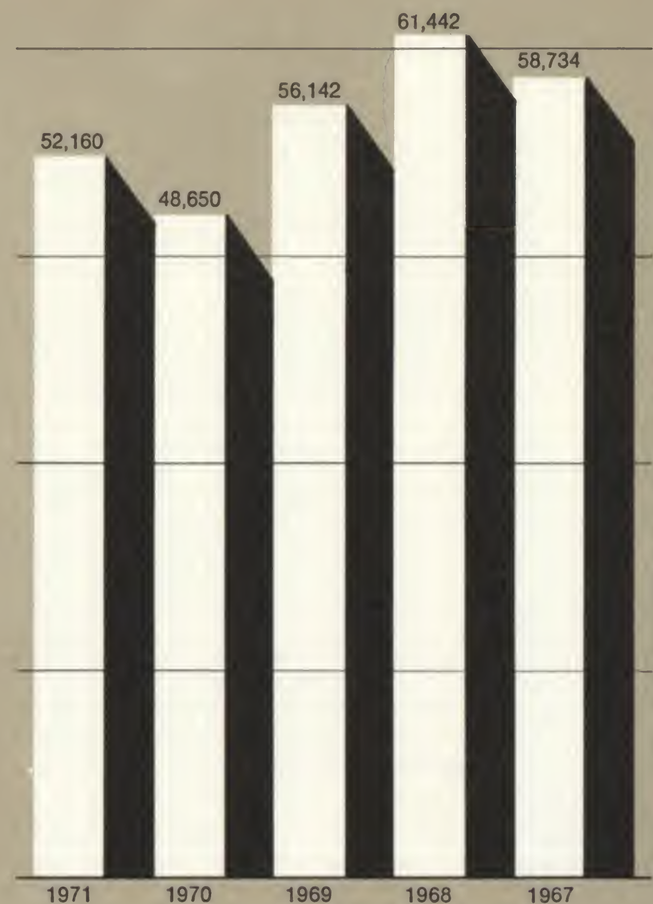
Financial Flexibility

Baldwin maintains short term financial flexibility through the sale of commercial paper. The paper has a prime rating from the National Credit Office, a division of Moody's Investor's Service, Inc. In addition, Baldwin continues to rely on commercial banks for credit and financial assistance. At December 31, 1971, Baldwin had lines of credit totalling $21,000,000 with 16 commercial banks in the United States.

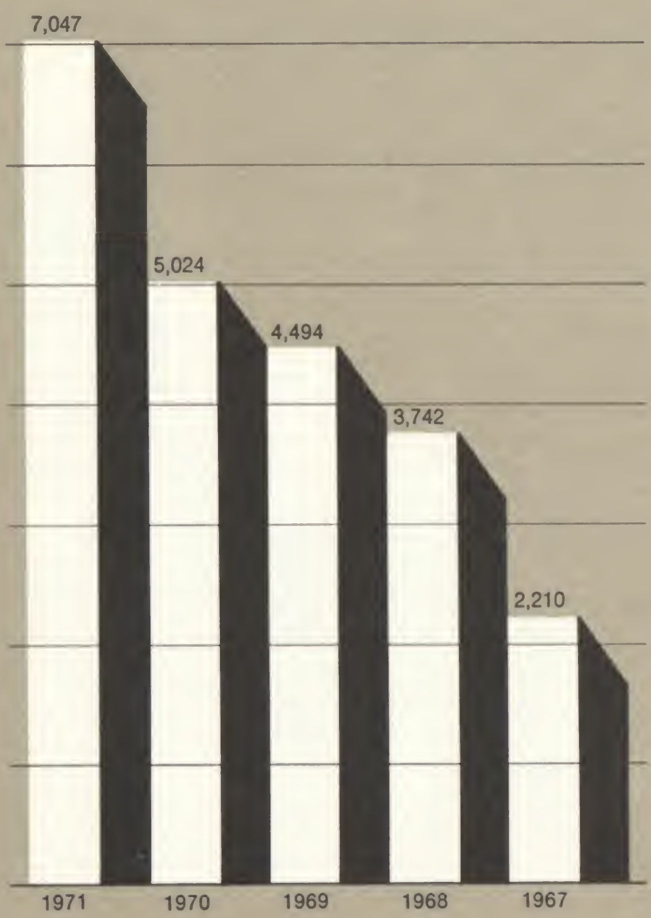
Total Sales and Revenues in thousands of dollars



Net Sales in thousands of dollars



Earnings After Taxes in thousands of dollars



Earnings Per Share in dollars

Dividends Per Common Share in dollars

D. H. Baldwin Company and Subsidiaries

Consolidated Balance Sheet
December 31, 1971, with comparative consolidated figures for 1970

Assets	Manufacturing and Merchandising	Financial Services	1971 Consolidated	1970 Consolidated
Cash and due from banks	**$ 4,159,683**	**$ 69,705,871**	**$ 73,739,257**	$ 71,953,557
Investment securities at cost, which approximates market (notes 1, 2, 3 and 5):				
U.S. government and agencies securities	—	**31,943,347**	**31,943,347**	26,416,553
Obligations of states and political subdivisions, and political subdivisions of Canada	—	**29,846,435**	**29,846,435**	23,826,235
Public utility and industrial bonds	—	**24,712,870**	**23,886,032**	21,981,702
Corporate stocks and other securities	**4,424,769**	**8,104,224**	**12,528,993**	10,881,094
Total investments	**4,424,769**	**94,606,876**	**98,204,807**	83,105,584
Federal funds sold and securities purchased under agreements to resell	—	**9,618,151**	**9,618,151**	9,100,000
Receivables (including amounts due after one year) (notes 3 and 9):				
Mortgages	—	**251,474,499**	**251,474,499**	212,629,500
Commercial and industrial loans	—	**79,723,000**	**79,723,000**	72,659,489
Consumer and other loans	**7,732,637**	**104,040,839**	**111,773,476**	100,002,496
Trade and other receivables	**9,004,702**	**8,195,945**	**17,200,647**	12,520,209
	16,737,339	**443,434,283**	**460,171,622**	397,811,694
Less: Unearned discount	—	**13,394,405**	**13,394,405**	9,723,067
Allowance for losses	**702,001**	**2,724,232**	**3,426,233**	3,297,976
Net receivables	**16,035,338**	**427,315,646**	**443,350,984**	384,790,651
Manufacturing and merchandising inventories (note 4)	**17,512,546**	—	**17,512,546**	18,228,870
Investments at underlying net asset value in, and advances to (from) consolidated subsidiaries (notes 1 and 5)	**53,400,534**	**(13,433,346)**	—	—
Property, plant and equipment, at cost (note 5):				
Land	**525,491**	**3,324,428**	**3,849,919**	3,868,425
Buildings and improvements	**4,723,332**	**5,708,665**	**10,431,997**	10,283,874
Manufacturing machinery and equipment	**5,664,276**	—	**5,664,276**	5,699,234
Furniture, fixtures and equipment	**1,264,553**	**3,875,008**	**5,139,561**	4,592,088
Leasehold improvements	**1,273,907**	**57,044**	**1,330,951**	1,206,538
	13,451,559	**12,965,145**	**26,416,704**	25,650,159
Less accumulated depreciation	**7,319,590**	**4,521,534**	**11,841,124**	10,880,744
Net property, plant and equipment	**6,131,969**	**8,443,611**	**14,575,580**	14,769,415
Excess of cost of subsidiaries over the company's share of the fair value of net underlying assets at date of acquisition (note 1)	—	**22,928,460**	**22,928,460**	23,621,000
Other assets, at amortized cost (note 5)	**3,005,376**	**9,570,553**	**12,652,331**	10,539,631
	$104,670,215	**$628,755,822**	**$692,582,116**	$616,108,708

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Manufacturing and Merchandising	Financial Services	1971 Consolidated	1970 Consolidated
Time and savings deposits	$ —	$314,858,310	$314,858,310	$258,305,277
Demand deposits (note 2)	—	134,627,169	134,500,872	127,803,932
Notes and mortgages payable (note 5):				
Due in one year	15,479,382	3,303,083	18,382,465	18,369,279
Due after one year	20,700,000	15,624,946	36,324,946	46,454,708
	36,179,382	18,928,029	54,707,411	64,823,987
Federal funds purchased and securities sold under agreements to repurchase	—	21,951,881	21,951,881	9,400,000
Advances from Federal Home Loan Bank (note 3)	—	27,987,850	27,987,850	36,237,850
Insurance reserves	—	34,151,920	34,151,920	30,657,726
Loans in process	—	11,719,170	11,719,170	8,444,413
Advance payments from borrowers	—	7,370,937	7,370,937	6,227,462
Accounts payable and accrued expenses	8,279,686	4,752,760	13,032,446	10,353,448
Other liabilities	2,061,350	5,250,149	6,884,661	5,567,794
Taxes on income, of which $6,455,000 is deferred ($4,610,000 for 1970) (note 6)	4,866,705	1,838,945	6,705,650	4,628,344
Deferred income	—	1,524,996	1,524,996	1,361,979
	51,387,123	584,962,116	635,396,104	563,812,212
5¼% subordinated capital debenture payable in annual principal installments of $200,000	—	2,600,000	2,600,000	2,800,000
Minority interest in subsidiaries	—	1,302,920	1,302,920	1,016,503
Stockholders' equity (notes 1, 5, 6 and 7):				
Preferred stock:				
Series A 5% cumulative convertible, par value $108 per share. Authorized 76,046.5 shares; issued 66,867 shares (67,646 shares in 1970)	7,221,655	—	7,221,655	7,305,795
Series B 8% cumulative, par value $100 per share. Authorized 144,138 shares; issued 71,079 shares	7,107,927	—	7,107,927	7,107,927
Common stock:				
Parent company—without par value. Authorized 4,000,000 shares; issued 2,465,942 shares at stated value (2,357,292 shares in 1970)	4,931,884	—	4,931,884	4,714,584
Financial services subsidiaries	—	21,117,000	—	—
Additional capital	4,041,772	3,000,000	4,041,772	1,546,353
Retained earnings (including appropriated reserves of savings and loan subsidiary of $1,683,476 and $970,046, respectively)	30,329,370	15,773,786	30,329,370	28,086,103
	53,632,608	39,890,786	53,632,608	48,760,762
Less cost of treasury shares:				
Common, 13,915 shares (10,330 shares in 1970)	247,363	—	247,363	182,127
Preferred, 1,021 Series B shares (986 shares in 1970)	102,153	—	102,153	98,642
Total stockholders' equity	53,283,092	39,890,786	53,283,092	48,479,993
Commitments and contingencies (note 9)				
	$104,670,215	$628,755,822	$692,582,116	$616,108,708

D. H. Baldwin Company and Subsidiaries

Statement of Consolidated Income
Year ended December 31, 1971, with comparative figures for 1970

	1971	1970
Financial Services		
Interest and fees on loans and receivables (notes 3 and 9)	**$35,483,710**	$32,809,531
Investment income	**6,513,084**	5,813,442
Life, property and casualty insurance premiums	**31,655,099**	26,952,455
Other revenues	**5,857,598**	3,347,080
	79,509,491	68,922,508
Expenses:		
Interest	**23,143,087**	22,880,868
Operating expenses	**26,611,570**	21,933,830
Life insurance benefits and property and casualty insurance losses	**20,647,499**	18,019,904
Federal income taxes	**2,219,858**	1,334,462
	72,622,014	64,169,064
Financial Services net income	**6,887,477**	4,753,444
Music		
Net sales	**47,159,910**	43,497,001
Other revenues	**586,577**	927,780
	47,746,487	44,424,781
Expenses:		
Cost of products sold	**33,357,773**	31,562,383
Selling and administrative	**12,611,401**	11,170,476
Interest	**1,288,995**	1,694,934
Federal income taxes (credit)	**169,500**	(41,000)
	47,427,669	44,386,793
Music net income	**318,818**	37,988
Electronics		
Net sales	**4,999,904**	5,153,371
Equity increase in Siliconix incorporated—joint venture	**70,994**	209,083
	5,070,898	5,362,454
Expenses:		
Cost of products sold	**4,106,756**	3,976,516
Selling and administrative	**1,173,238**	1,156,071
Interest	**163,407**	144,650
Federal income taxes (credit)	**(213,000)**	(68,000)
	5,230,401	5,209,237
Electronics net income (loss)	**(159,503)**	153,217
Net income before extraordinary items	**7,046,792**	4,944,649
Extraordinary items, net of applicable Federal income taxes of $167,000:		
Income resulting from sale of installment receivables	—	500,715
Loss on discontinuance of certain plant operations	—	421,635
Net extraordinary items	—	79,080
Net income (note 1)	**$ 7,046,792**	$ 5,023,729
Primary income per common share (note 7):		
Net income before extraordinary items	**$ 2.50**	$ 1.65
Extraordinary items, net of tax	—	.03
Net income	**$ 2.50**	$ 1.68
Fully diluted net income per share	**$ 2.35**	$ 1.62

See accompanying notes to consolidated financial statements.

D. H. Baldwin Company and Subsidiaries

Statement of Consolidated Stockholders' Equity
Year ended December 31, 1971, with comparative figures for 1970

	1971	1970
Preferred stock:		
Series A:		
Beginning of year	$ 7,305,795	$ 7,376,511
Conversion of 779 shares to 3,467 common shares	(84,140)	—
Conversion of 655 shares to 707 shares of Series B	—	(70,716)
End of year	7,221,655	7,305,795
Series B:		
Beginning of year	7,107,927	7,037,211
Conversion of 655 shares of Series A to 707 shares	—	70,716
End of year	7,107,927	7,107,927
Common stock:		
Beginning of year	4,714,584	4,675,404
Issuance of 94,348 shares as a 4% common stock dividend	188,696	—
Issuance of 10,835 shares (19,590 in 1970) under employee stock purchase and stock option plans (note 7)	21,670	39,180
Conversion of 779 shares of Series A to 3,467 shares	6,934	—
End of year	4,931,884	4,714,584
Additional capital:		
Beginning of year	1,546,353	1,318,395
Increase applicable to:		
Common shares issued under employee stock purchase and stock option plans	153,718	227,897
Conversion of Series A shares to common shares	77,139	—
4% common stock dividend	2,264,352	—
Transactions in treasury shares	210	61
End of year	4,041,772	1,546,353
Retained earnings:		
Beginning of year	28,086,103	25,391,965
Net income	7,046,792	5,023,729
Cash dividends:		
Preferred stock, Series A—$5.40 per share and Series B—$8.00 per share	(924,302)	(925,379)
Common stock—$.58 per share, plus fractional shares on stock dividend in 1971 of $13,687 paid in cash	(1,426,175)	(1,404,212)
4% common stock dividend	(2,453,048)	—
End of year	30,329,370	28,086,103
Common treasury shares:		
Beginning of year	(182,127)	(93,778)
Purchase of 3,072 shares (5,764 in 1970) less sales of 20 shares (206 in 1970)	(65,236)	(88,349)
End of year	(247,363)	(182,127)
Preferred, Series B treasury shares:		
Beginning of year	(98,642)	—
Purchase of 36 shares (986 in 1970) less sale of 1 share	(3,511)	(98,642)
End of year	(102,153)	(98,642)
Total stockholders' equity	$53,283,092	$48,479,993

See accompanying notes to consolidated financial statements.

D. H. Baldwin Company and Subsidiaries

Statement of Consolidated Changes in Financial Position
Year ended December 31, 1971, with comparative consolidated figures for 1970

	Manufacturing and Merchandising	Financial Services	1971 Consolidated	1970 Consolidated
Source of funds:				
Operations:				
Consolidated net income before extraordinary items by product line	$ 159,315	$ 6,887,477	$ 7,046,792	$ 4,944,649
Net adjustment of product line distribution of income and expenses to corporate lines	318,569	(318,569)	—	—
Consolidated net income before extraordinary items by corporate line	477,884	6,568,908	7,046,792	4,944,649
Add (deduct) items not requiring the outlay of funds in the current period:				
Depreciation and amortization, computed on straight line and accelerated methods	951,696	661,948	1,613,644	1,488,317
Increase in insurance reserves	—	3,494,194	3,494,194	3,594,948
Increase in equity in unearned premiums	—	(285,044)	(285,044)	(1,279,985)
Provision for uncollectible accounts	871,651	1,279,305	2,150,956	1,327,834
Provision for deferred Federal income taxes (note 6)	2,487,858	1,512,142	4,000,000	1,200,000
Other	(55,712)	206,165	150,453	(413,070)
Funds provided from operations before extraordinary items	4,733,377	13,437,618	18,170,995	10,862,693
Funds provided from extraordinary net income	—	—	—	246,080
Funds provided from operations	4,733,377	13,437,618	18,170,995	11,108,773
Proceeds from sales of installment receivables	14,158,750	1,041,738	15,200,488	24,273,476
Increase in time, savings, and demand deposits	—	63,105,054	63,249,973	39,615,205
Increase in borrowings:				
Increase in short-term debt	571,203	—	1,732,203	—
Proceeds from issuance of long-term debt	—	3,200,000	3,200,000	34,240,860
Increase in Federal funds and other money market obligations—net	—	12,033,730	12,033,730	—
Increase in advances from Federal Home Loan Bank of Topeka	—	—	—	10,953,800
Capital contributed by parent company	—	3,000,000	—	—
Increase in accounts payable and accrued expenses, and other liabilities	1,075,369	2,391,009	3,039,540	1,861,418
Decrease in investment securities	1,053,752	—	—	—
Decrease in inventories	716,324	—	716,324	1,576,341
Other	708,086	1,021,583	1,729,669	490,251
Net advances received from parent company	—	3,612,129	—	—
	23,016,861	102,842,861	119,072,922	124,120,124
Use of funds:				
Cash dividends paid	2,350,477	—	2,350,477	2,329,591
Increase in investment securities	—	15,508,415	14,786,825	4,834,174
Capital contribution to subsidiary at fair value	3,000,000	—	—	—
Net advances made to financial services subsidiaries	3,612,129	—	—	—
Acquisition of National Farmers Union Service Corporation and subsidiaries	—	—	—	14,750,000
Decrease in borrowings:				
Payments on long-term debt	900,000	11,591,266	12,491,266	24,312,474
Decrease in advances from Federal Home Loan Bank of Topeka	—	8,250,000	8,250,000	—
Decrease in short-term debt	—	—	—	20,208,015
Decrease in funds borrowed	—	2,500,000	2,500,000	8,500,000
Decrease in Federal funds and other money market obligations—net	—	—	—	10,250,000
Increase in mortgages, loans, trade and other receivables before proceeds from sales of installment receivables	10,643,728	61,287,183	72,332,911	34,713,800
Purchases of property, plant and equipment	1,247,587	479,013	1,726,600	3,382,993
Other	1,830,805	1,018,338	2,849,143	1,115,259
	23,584,726	100,634,215	117,287,222	124,396,306
Increase (decrease) in cash	(567,865)	2,208,646	1,785,700	(276,182)
Consolidated cash balances beginning of year	4,727,548	67,497,225	71,953,557	72,229,739
Consolidated cash balances end of year	$ 4,159,683	$ 69,705,871	$ 73,739,257	$ 71,953,557

See accompanying notes to consolidated financial statements.

D. H. Baldwin Company and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 1971

1) Principles of Consolidation
The consolidated financial statements present the accounts of the D. H. Baldwin Company (Company) and all of its subsidiaries since the date of organization or acquisition of each subsidiary. In prior years, the Company did not consolidate Baldwin-Central, Inc. and its subsidiaries: The Central Bank and Trust Company (Central Bank) and The Empire Savings, Building and Loan Association (Empire), and its investment in National Farmers Union Service Corporation (NFU Service), considered a subsidiary for accounting purposes, all of Denver, Colorado; but carried the investment in Baldwin-Central at cost plus the Company's portion of changes in Baldwin-Central's net assets. The Company continues to follow the presentation used in prior years in reports filed with the Securities and Exchange Commission. All material intercompany transactions and balances have been eliminated in the consolidated financial statements.

Generally, the amounts listed in the manufacturing and merchandising columns of the balance sheet are used in manufacturing and merchandising. However, there are certain exceptions such as installment receivables, fixed assets, investments in financial subsidiaries, etc. It is not practicable to separate such assets and liabilities of the companies having net assets employed in both manufacturing and merchandising and financial services, therefore, the columnar groupings on the consolidated balance sheet are along corporate lines as compared to the product line distributions on the statement of consolidated income.

Baldwin-Central's investment in NFU Service, an insurance holding company, is represented by 4% convertible, participating, cumulative preferred stock having a par value of $14,750,000. Payment of preferred dividends is to begin no later than 1974. The preferred stock may be converted into 90% of the outstanding common stock of NFU Service at Baldwin-Central's option until January 1, 1975, at which date conversion into common stock is mandatory. In view of this provision and other related agreements, NFU Service is considered a subsidiary for accounting purposes.

The consolidated financial statements include the accounts of Central Bank, Empire, and NFU Service after adjustment for purchase price accounting applied as of the dates of acquisition. In addition, consistent with the prior year, the accounts of the insurance companies owned by NFU Service have been included on the basis of generally accepted accounting principles, which accounting principles differ in some respects from those followed in reports to regulatory authorities.

The reconciliation of the net income of Central Bank, Empire, and NFU Service to the net income from these three subsidiaries included in the Company's consolidated net income is as follows:

	1971	1970
Equity increase in subsidiaries before minority interest	**$6,992,926**	$3,894,011
Less minority interest	**187,839**	87,204
	6,805,087	3,806,807
Add (deduct) adjustments to statutory changes in equity and those adjustments arising from allocation of purchase price as of dates of acquisition:		
Discounts earned on loans and investment securities	**1,702,194**	1,776,273
Adjustment of life insurance reserves and equity in unearned premiums, net of related income tax	**482,493**	419,462
Depreciation	**72,794**	72,794
Federal income tax benefit from purchase loss carryforward	**(637,200)**	(107,100)
Amortization of premium on mortgages payable and debentures	**(36,730)**	(39,344)
Net realizable gains (losses) incurred on life insurance company	**968**	(37,220)
	1,584,519	2,084,865
Elimination of loss on intercompany sale of investment securities	**—**	420,797
Net income applicable to the Company	**$8,389,606**	$6,312,469

Included in this report are the summaries of financial statements of Baldwin-Central, Central Bank, Empire, and NFU Service. The consolidated financial statements of NFU Service and subsidiaries summarized herein differ from the financial statements filed in the annual report to various regulatory authorities and to the Securities and Exchange Commission. The financial statements filed with the Securities and Exchange Commission are not consolidated, and the individual statements of the NFU insurance subsidiaries are presented on a statutory basis, not on the basis of generally accepted accounting principles.

In 1971, Central Bank declared cash dividends aggregating $1,224,000. Under provisions of the subordinated capital debenture issued by Central Bank, there are certain restrictions on the payment of cash dividends. At December 31, 1971, $4,536,602 of the Bank's undivided profits was free of such restrictions. In connection with the acquisition of Empire,

the Company agreed with the regulatory authorities that Empire will not declare dividends whenever dividend payments would reduce Empire's net worth below 8% of certain assets. At December 31, 1971, the net worth of Empire was approximately 7.6% of such assets; however the Company could have satisfied this 8% requirement through the sale of mortgage loans and repayment of debt of approximately $10,000,000.

The amount by which the Company's cost of acquiring certain subsidiaries exceeds its share of the fair value of the assets of such subsidiaries at the date of acquisition is not being amortized because management believes its value has not diminished.

2) Investment securities

The amortized cost of investment securities pledged by Central Bank to secure deposits of government instrumentalities amounted to $22,180,000 at December 31, 1971.

3) Receivables

As is the common practice in the savings and loan industry, first mortgage real estate loans totalling approximately $45,793,000 and stock of the Federal Home Loan Bank of Topeka, Kansas, totalling $3,027,300, included in investment securities, were pledged by Empire as collateral for advances from the Federal Home Loan Bank totalling $27,987,850.

Consumer and other loan receivables aggregating $111,773,476 include $7,732,637 at December 31, 1971 of installment contracts arising from the sale of musical instruments which are accepted by the Company from customers, with recourse to the musical instrument dealers. Finance charges from these installment loans are taken into income on the straight-line basis as cash is received from the consumer. Finance charges are earned on the sum-of-the-digits method over the term of the notes on all other consumer loans.

4) Manufacturing and merchandise inventories

Manufacturing and merchandise inventories are stated at the lower of cost (first-in, first-out) or market (replacement) with the exception that the valuation of work in process includes no manufacturing overhead costs. The omission of this overhead had no material effect on net income. Manufacturing and merchandise inventories are as follows:

	1971	**1970**
Finished goods	**$ 7,516,666**	$ 7,621,969
Work in process	**4,795,531**	5,542,107
Raw materials	**5,200,349**	5,064,794
	$17,512,546	$18,228,870

Musical instruments in the amount of approximately $11,000,000 at December 31, 1971 ($13,000,000 at December 31, 1970), have been sold to the D. H. Baldwin Trust. At December 31, 1971, the Trust has issued notes payable to banks of $10,100,000 ($10,400,000 at December 31, 1970). The Trust has shipped these instruments on consignment to Baldwin musical instrument dealers.

5) Notes and mortgages payable

Notes and mortgages payable at December 31, 1971, consist of:

Notes payable (short and long term):	
Banks:	
Note payable bearing an 8⅜% interest rate with principal payable $1,000,000 annually 1973 through 1975, and a final payment of $2,000,000 due in 1976	$ 5,000,000
Notes payable bearing a variable interest rate of 1½% above the six month rate at which United States dollars are offered to prime banks in the London Interbank Market (the effective rate was 10⅝% at December 31, 1971, and 7¼% in February, 1972) with principal payable $2,000,000 annually 1974 through 1976 with the final payment of $4,000,000 due in 1977	10,000,000
Notes payable bearing a variable interest rate of 1% above the average interest rates at which the participating banks' London offices are able to acquire six months United States dollars (at December 31, 1971, the effective rate was 8¾%) with principal amounts payable $1,000,000 semiannually beginning June 30, 1972 and ending June 30, 1974	5,000,000
Notes payable bearing interest at 1% above the prime rate and 6%, secured by the common stock of the life insurance subsidiary of NFU Service and pledge of bonds in the principal amount of $1,800,000; $1,800,000 due in 1972 and $1,400,000 due in 1974	3,200,000
Note payable—interest at 6½%, due in 1972	523,082
Short-term notes, due currently	1,050,382
	24,773,464

Other:

Note payable bearing an interest rate of 8% with principal amounts payable in varying amounts through April 1, 1992, of which $780,000 is due in 1972	11,650,000
Note payable bearing an interest rate of 5% with principal amounts payable $900,000 annually through 1975	3,600,000
Commercial paper	10,529,000
Miscellaneous, $300,000 due in 1972 and 1975	600,000
	26,379,000
Mortgages payable of Financial services subsidiaries—payable in monthly installments aggregating $34,728 including interest, at annual rates of 4⅝% to 6%, with maturities ranging from May, 1979 to March, 1988, secured by land, buildings and improvements with an approximate carrying value of $3,182,426 and investment in real estate of $2,842,105	3,554,947
	$54,707,411

The 5% note payable through 1975 contains certain restrictions relating to the payment of cash dividends. Under the terms of the agreement as amended, the Company can pay cash dividends on common stock aggregating $1,500,000 and on preferred stock aggregating $950,000 in 1972.

6) Taxes on income

The deferred tax liability of $6,455,000 ($4,610,000 at December 31, 1970), consists principally of the following: $3,965,000 ($2,270,000 at December 31, 1970) arising from the Company's use of the installment sales method of recording musical instrument sales for Federal income tax purposes, $160,000 ($150,000 at December 31, 1970) arising from Central Bank's use of the cash method of accounting for Federal income tax purposes, and $1,725,000 ($1,270,000 at December 31, 1970) arising from material differences between the net income of the insurance subsidiaries reported in accordance with generally accepted accounting principles and the net income that is currently taxable under Federal income tax laws.

The provision for Federal income taxes includes a deferred tax provision of $4,000,000 (deferred tax benefit of $1,200,000 for 1970). Investment tax credits, which are not material, have been accounted for as a reduction of current Federal income taxes.

In accordance with the provisions of the Internal Revenue Code, Empire has appropriated for general reserves approximately $11,400,000 through December 31, 1971 (of which $3,487,000, including a current appropriation of approximately $1,700,000, has been appropriated since its acquisition by Baldwin-Central in 1968) as a deduction from taxable income for which deferred income taxes have not been provided. If, in the future, these reserves are charged for any purpose other than to absorb bad debt losses, a tax liability will be imposed at the then current Federal income tax rate.

The life insurance subsidiary of NFU Service is subject to taxation under the provisions of the Life Insurance Income Tax Act of 1959 which provides generally that one-half of operating profits are taxable to the life insurance company only when distributed to stockholders as dividends. Such accumulated amount is estimated at $1,713,000 as of December 31, 1971. If, in the future, the income is distributed to stockholders, a tax liability will be imposed at the then current Federal income tax rate.

7) Capital stock

On May 21, 1971 (effective June 21, 1971) the Board of Directors approved a two for one split of the common stock and reduced the stated value of each common share from $4.00 to $2.00. All references to number of shares of common stock, and related dividends and income per share give effect to such stock split.

At December 31, 1971, 309,712 shares of common stock were reserved for conversion of the Series A convertible preferred stock. Further, 127,463 shares of common stock were reserved for sale to the Company's employees under the stock purchase plan and for the granting and exercise of options under the stock option plan. Under the stock option plan, options may be granted to certain employees to purchase common stock of the Company at a price not less than the market value on the date of the grant. All outstanding options at December 31, 1971 were exercisable. Stock options granted and exercised during 1971 and outstanding at December 31, 1971 are as follows:

	Shares	Option price per share
Options granted	2,080	$15.56
Options exercised	10,400	$15.26
Options outstanding	67,184	$12.50-$23.44

The number of common shares at December 31, 1971 reserved for conversion of Series A preferred stock and reserved for issuance under employee stock purchase and option plans has been adjusted for the 4% common stock dividend declared on December 17, 1971 and payable January 31, 1972.

Each share of the Series A preferred stock is convertible into either 1.08 shares of Series B preferred stock or 4.63 shares of common stock. Each share of preferred stock is entitled to one vote on any matter submitted to a vote of the common shareholders. The preferred stock may be redeemed in whole or in part at the Company's option anytime after July 1, 1989 at par value plus all dividends accrued and unpaid thereon.

Net income per common share has been computed based on the weighted average number of shares outstanding during the year, after consideration of preferred dividend requirements, a two for one stock split on June 21, 1971 and the 4% stock dividend. Fully diluted income per common share has been computed assuming conversion of the Series A preferred stock and elimination of the dividend requirement thereon.

8) Retirement plans

The Company and its subsidiaries maintain various contributory and non-contributory pension plans covering all eligible employees. The companies accrue all actuarially determined costs. Past service costs are being amortized over periods ranging from 25 to 40 years. The policy is to fund pension costs. Under certain plans, the Company has chosen to fund the minimum contribution requirements as actuarially determined under the plans. Total pension expense amounted to $620,500 ($625,500 in 1970).

9) Commitments and contingencies

In 1971, the Company sold $19,985,954 of installment receivables. The finance charges on these sold receivables are being deferred and taken into income by the same method in effect prior to the sale. Under the terms of certain of the agreements for these sales and certain sales in prior years, the purchasers have withheld an amount aggregating $5,755,959 at December 31, 1971, and the Company is obligated to repurchase delinquent accounts up to this amount. Under the remaining agreements covering sold accounts having aggregate unpaid balances of $9,952,717 at December 31, 1971, the Company must substitute current accounts for any account which becomes delinquent. At December 31, 1971, the total unpaid contract balance of receivables sold amounted to $33,736,152. Management is of the opinion that adequate provision has been made in the financial statements for losses arising from the reacquisition of such paper.

Central Bank, through its subsidiary, entered into an agreement to participate in the construction and operation of a new building. Under the terms of the agreement, the Bank and its subsidiary are guarantor for up to $5,500,000 of interim construction financing. Under the terms of its lease agreements with the joint venture, the Bank may be responsible for rentals in excess of the amount of rent related to the space it will occupy.

At December 31, 1971, total minimum annual rentals (exclusive of amounts based on sales) payable under leases expiring on various dates to 1985 amount to $1,300,000.

10) Supplementary financial information

The summaries of financial statements of Baldwin-Central, Central Bank, Empire, and NFU Service for December 31, 1971 with comparative figures for 1970 are included on pages 21 through 24.

Accountants' Report

The Board of Directors and Stockholders
D. H. Baldwin Company:

We have examined the consolidated balance sheet of D. H. Baldwin Company and subsidiaries as of December 31, 1971, and the related statements of income, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of National Farmers Union Service Corporation (a consolidated subsidiary) and its subsidiaries, which statements reflect total assets and revenues constituting 8% and 26%, respectively, of the related consolidated totals. These statements were examined by other independent certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for National Farmers Union Service Corporation and subsidiaries, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the aforementioned report of other independent certified public accountants, the accompanying consolidated balance sheet and statements of consolidated income, stockholders' equity, and changes in financial position present fairly the financial position of D. H. Baldwin Company and subsidiaries at December 31, 1971, and the results of their operations (by group), the changes in stockholders' equity and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change from carrying their investment in Baldwin-Central, Inc. and subsidiaries on an equity basis to a full consolidation of their accounts as described in note 1 to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

Cincinnati, Ohio
February 18, 1972

Baldwin-Central, Inc.

Summary of Balance Sheet

December 31, 1971, with comparative figures for 1970
(in thousands of dollars)

Assets	**1971**	**1970**
Cash	**$ 257**	$ 251
Investment in subsidiaries	**66,794**	59,618
Other assets, including $809 and $948, respectively, due from subsidiaries	**816**	956
	$67,867	$60,825
Liabilities and Stockholder's Equity		
Liabilities:		
Notes payable	**$16,650**	$22,607
Amount due parent company	**10,605**	7,594
Other liabilities	**309**	328
Total liabilities	**27,564**	30,529
Stockholder's equity:		
Common stock without par value	**20,736**	20,736
Contributed capital	**3,000**	—
Retained earnings	**16,567**	9,560
Total stockholder's equity	**40,303**	30,296
	$67,867	$60,825

Summary of Statement of Income

Year ended December 31, 1971, with comparative figures for 1970
(in thousands of dollars)

	1971	**1970**
Equity increase in investments (includes Siliconix joint venture of $129 in 1970)	**$ 8,389**	$ 6,441
Expenses	**2,616**	3,117
Net income before Federal income tax credit	**5,773**	3,324
Federal income tax credit	**1,235**	1,559
Net income	**$ 7,008**	$ 4,883

This summary is based upon audited financial statements, which are available upon request.

Summary of Statement of Condition

December 31, 1971, with comparative figures for 1970
(in thousands of dollars)

Assets	**1971**	**1970**
Cash and due from banks	**$ 59,610**	$ 61,971
Investment securities, at amortized cost (market value $51,010 and $36,440, respectively)	**50,761**	37,430
Federal funds sold and securities purchased under agreements to resell	**9,618**	9,100
Loans, less unearned discount	**189,074**	164,998
Bank premises and equipment, at cost less depreciation	**3,182**	3,295
Other assets	**3,916**	2,836
	$316,161	$279,630
Liabilities and Capital Funds		
Liabilities:		
Deposits	**$261,571**	$236,963
Federal funds purchased and securities sold under agreements to repurchase	**21,952**	9,400
Other liabilities	**7,127**	8,985
Total liabilities	**290,650**	255,348
Reserve for possible loan losses	**2,840**	2,760
Capital funds (including subordinated capital debentures of $2,600 and $5,800, respectively)	**22,671**	21,522
	$316,161	$279,630

Summary of Statement of Income

Year ended December 31, 1971, with comparative figures for 1970
(in thousands of dollars)

	1971	**1970**
Operating income	**$ 20,251**	$ 18,290
Operating expenses	**16,527**	15,164
Income before income taxes and securities gains	**3,724**	3,126
Income taxes:		
Current	**1,112**	888
Deferred	**345**	347
	1,457	1,235
Income before securities gains	**2,267**	1,891
Securities gains less applicable income tax effect	**393**	132
Net income	**$ 2,660**	$ 2,023

This summary is based upon audited financial statements, which are available upon request.

The Empire Savings, Building and Loan Association and Subsidiary

Summary of Statement of Condition

December 31, 1971, with comparative figures for 1970
(in thousands of dollars)

Assets	**1971**	**1970**
Cash	**$ 9,102**	$ 4,072
Investment securities, at cost (market value $5,649 and $9,481, respectively)	**5,604**	9,455
Stock in Federal Home Loan Bank of Topeka, at cost	**3,027**	3,027
Loans receivable	**228,592**	192,817
Home and branch offices, buildings and equipment, at cost less depreciation	**3,102**	3,092
Other assets	**2,936**	1,745
	$252,363	$214,208
Liabilities and Stockholders' Equity		
Liabilities:		
Savings accounts	**$188,147**	$149,668
Loans in process	**11,719**	8,444
Advance payments by borrowers	**7,371**	6,228
Advances from Federal Home Loan Bank	**27,988**	36,238
Other liabilities	**1,206**	315
Total liabilities	**236,431**	200,893
Income deferred to future operations	**1,525**	1,362
Stockholders' equity, including undivided profits appropriated for general reserves of $9,518 and $8,804, respectively	**14,407**	11,953
	$252,363	$214,208

Summary of Statement of Operations

Year ended December 31, 1971, with comparative figures for 1970
(in thousands of dollars)

	1971	**1970**
Income	**$ 19,250**	$ 14,134
Expenses	**15,932**	12,770
Income before income taxes	**3,318**	1,364
Income taxes	**864**	285
Net income	**$ 2,454**	$ 1,079
Allocation of net income:		
Appropriated to general reserves	**$ 711**	$ 257
Unappropriated	**1,743**	822
	$ 2,454	$ 1,079

This summary is based upon audited financial statements, which are available upon request.

Baldwin-Central, Inc.—Investment in

National Farmers Union Service Corporation and Subsidiaries (Consolidated Insurance Operations)

Summary of Balance Sheet

December 31, 1971, with comparative figures for 1970 (in thousands of dollars)

Assets	**1971**	**1970**
Investments in securities, at amortized cost (market value $36,525 and $28,625, respectively)	**$35,426**	$29,309
Mortgage loans	**6,119**	6,467
Cash	**775**	1,216
Notes receivable from Baldwin-Central, Inc.	**5,000**	—
Other notes and accounts receivable	**1,451**	1,665
Equity in unearned premiums	**2,505**	2,220
Property and equipment, at cost less depreciation	**569**	562
Other assets	**3,838**	2,189
	$55,683	$43,628
Liabilities and Stockholders' Equity		
Liabilities:		
Policy reserves and related items	**$16,107**	$14,956
Reserves for losses and loss adjustment expenses	**9,608**	8,236
Unearned premiums	**8,437**	7,466
Secured notes and mortgage payable	**3,888**	—
Accounts payable and other liabilities	**2,837**	2,187
Current and deferred income taxes	**1,777**	1,287
Total liabilities	**42,654**	34,132
Stockholders' equity:		
Preferred stock	**14,750**	14,750
Common stock	**750**	750
Contributed capital	**647**	146
Retained earnings (deficit)	**(3,118)**	(6,150)
Total stockholders' equity	**13,029**	9,496
	$55,683	$43,628

Summary of Statement of Operations

Year ended December 31, 1971, with comparative figures for 1970 (in thousands of dollars)

	1971	**1970**
Revenues:		
Life and health premiums	**$ 9,771**	$ 8,350
Property and casualty premiums	**21,884**	18,602
Investment income, net	**3,347**	2,765
	35,002	29,717
Insurance benefits and expenses:		
Life and health benefits	**6,390**	5,303
Property and casualty losses	**14,258**	12,717
Commissions, taxes and other operating expenses	**10,579**	8,114
	31,227	26,134
Net operating income	**3,775**	3,583
Realized gains (losses) on investments	**291**	(51)
	4,066	3,532
Less policyholders' dividends	**510**	457
Income before income taxes	**3,556**	3,075
Federal income taxes:		
Current	**64**	82
Deferred	**1,167**	1,387
	1,231	1,469
Net income (Baldwin-Central, Inc. share $2,092 and $1,446, respectively)	**$ 2,325**	$ 1,606

This summary is based upon audited financial statements, which are available upon request.

. . . not only today for this young girl, but throughout her lifetime.

D. H. Baldwin Company and Subsidiaries

General Offices
Cincinnati, Ohio

Subsidiaries

Manufacturing and Merchandising

Baldwin Piano & Organ Company

The Baldwin Piano Company (Canada) Limited

Baldwin Export Corporation

C. Bechstein Pianofortefabrik AG

Baldwin Electronics, Inc.
Electron Emission Systems, Inc.
Quantrol Electronics, Inc.

Financial Services

Baldwin-Central, Inc.
The Central Bank and Trust Company
The Empire Savings, Building and Loan Association

The Baldwin Company

D. E. Pedlow & Company

Manufacturing Plants

Arkansas: Booneville, Camden, Conway, DeQueen, Fayetteville, Little Rock

Mississippi: Greenwood

Ohio: Cincinnati

West Germany: West Berlin, Karlsruhe, Eschelbronn

Affiliate

Siliconix incorporated

Dealers or Company-Owned Sales Outlets

In all principal cities in the United States, and abroad

Transfer Agents and Registrars

The Central Trust Company, Cincinnati
Transfer Agent and Registrar

Manufacturers Hanover Trust Company, New York
Transfer Agent

First National City Bank, New York
Registrar

Stock Listed

American Stock Exchange (BDW)

Cincinnati Stock Exchange